VS Industry (VSI MK)

2QFY26: Below Expectations; Cyclical Headwinds Persist, But Downside Pricing In

Highlights

- Near-term outlook remains murky amid weaker white goods demand; however, decade-low valuations offer rebound optionality on any positive surprise. We recalibrate our FY26/27 earnings forecasts to RM30m/140m respectively to reflect softer loadings and prolonged gestation.
- VS trades at 7.9x FY27F PE (-1.0SD) and 0.5x FY26F P/BV (-2SD), below even MCO trough levels (0.83-0.88x), suggesting limited downside with asymmetrical upside potential.
- Despite longer gestation, valuations are compelling; target price: RM0.43. Potential catalysts will stem from order normalisation, utilisation recovery, and new customer wins.

2QFY26 Results

Year to 31 Jul (RMm)	2QFY26	qoq % chg	yoy % chg	1HFY26	yoy % chg
Sales	769.5	(28.7)	(15.3)	1,848.1	(8.5)
Gross Profit	83.4	(60,975.9)	(1.8)	83.4	(1.8)
EBIT	(26.2)	(151.7)	(181.5)	24.5	(69.7)
PBT	(28.1)	(157.5)	(206.8)	20.8	(70.3)
Net Profit	(29.6)	(196.6)	(292.3)	1.0	(97.7)
Core net profit	(29.6)	(220.6)	(292.3)	(5.1)	(111.0)
Sales					
Malaysia	705.3	(29.6)	30.6	1,706.9	10.9
Indonesia	64.2	(16.7)	(6.5)	141.2	(21.4)
PBT					
Malaysia	(27.0)	(158.3)	(183.2)	19.3	(72.7)
Indonesia	(0.6)	(135.9)	(83.7)	1.1	(39.6)

Source: VS, UOB Kay Hian

Analysis

- **Below expectations.** VS Industry (VS) reported 2QFY26 core loss of RM29.6m (1QFY26: RM24.5m; 2QFY26: RM15.4m). This brings 1HFY26 core net loss to RM5.1m, which falls below expectations. The negative deviation was mainly due to higher-than-expected operation losses from both Philippines operations (RM19m) and HT Press (RM3.1m) alongside lower loading from key customers amid weak consumer sentiments globally.
- **1HFY26 revenue dropped 9%** on weaker loadings from Indonesia. A core net loss of RM5.1 was recorded, dragged by higher operational losses from PH, cost-down initiatives and HT Press (amounting to RM33.6m).

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	3,635	4,120	4,627
EBITDA	413	223	191	338	367
Operating profit	287	96	61	208	234
Net profit (rep./act.)	246	37	30	140	159
Net profit (adj.)	210	51	30	140	159
EPS	5.3	1.3	0.8	3.6	4.0
PE	5.4	21.9	35.6	7.9	7.1
P/B	0.5	0.5	0.5	0.5	0.5
EV/EBITDA	2.7	4.9	5.8	3.2	3.0
Dividend yield	6.7	2.8	0.7	3.9	4.2
Net margin	5.8	1.0	0.8	3.4	3.4
Net debt/(cash) to equity	6.7	(3.3)	(0.0)	2.2	3.5
Interest cover	22.5	11.4	8.1	14.4	15.6
ROE	5.5	1.7	1.4	6.3	6.8
Consensus net profit	-	-	113	172	211
UOBKH/Consensus (x)	-	-	0.27	0.81	0.75

Source: VS, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM0.285
Target Price	RM0.430
Upside	+50.9%
Previous TP	RM0.700

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Stock Data

GICS Sector	Information Technology
Bloomberg ticker	VSI MK
Shares issued (m)	3,854.5
Market cap (RMm)	1,098.5
Market cap (US$m)	275.1
3-mth avg daily t'over (US$m)	3.4

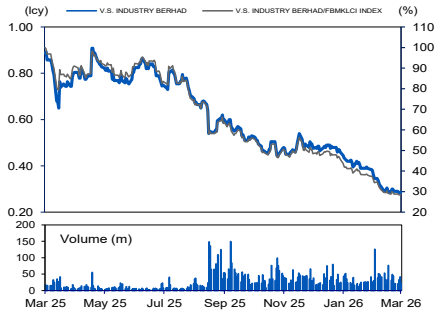
Price Performance (%)

52-week high/low: RM0.923/RM0.275

1mth	3mth	6mth	1yr	YTD
(26.0)	(42.4)	(52.9)	(68.4)	(41.2)

Major Shareholders	%
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Employees Provident Fund	6.8

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Revenue dropped 29% qoq** due to lower loading from key customers amid soft consumer sentiments globally, while core net losses of RM29.6m underscored the impact of suboptimal customer loadings, cost-down pressures and lingering operational inefficiencies.
- **Short-term pain for long-term gain.** Management highlighted that prevailing industry headwinds, particularly tariff-related pressures, are likely to continue weighing on profitability across the CM/EMS industry at least through FY26. To navigate the challenging operating environment, the group has adopted a strategic decision to partially share the tariff cost burden with customers in exchange for higher order volumes. While this will continue to lead to near-term margin compression, the current low-margin landscape is also driving a natural industry shake-out, accelerating a survival-of-the-fittest phase where weaker players are exiting the market, creating opportunities for market share consolidation by established and resilient players such as VS.
- **New foray – potential rerating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible (double its capacity in JB and they listed VS as a strategic partner). PCB assembly has already commenced for this client, but we exclude contributions from forecasts for now. As a sensitivity analysis, securing a RM300m contract at 3% net margin could boost FY27 earnings by about 7%.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM0.43 (from RM0.70),** based on rollover 12x FY27F PE (from 16x, which is -0.5SD to the 10-year mean).

Earnings Revision/Risk

- After model updates, we recalibrate our FY26/27 earnings forecasts to RM30m/RM140m respectively to reflect softer loadings and prolonged gestation.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

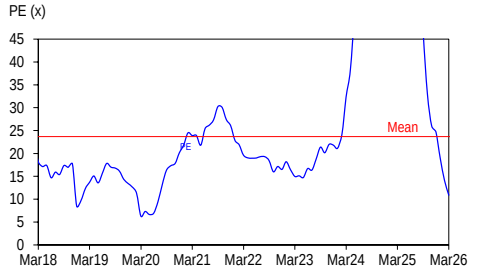
- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	3,635	4,120
Key customer	2,007	1,988	2,155	2,465
Customer Z	400	352	250	275
China	30	30	40	73
Indonesia	350	333	349	349
New key customers	1070	400	500	550
Others	391	686	341	408
Core net margin (%)	4.9%	0.8%	3.4%	3.4%

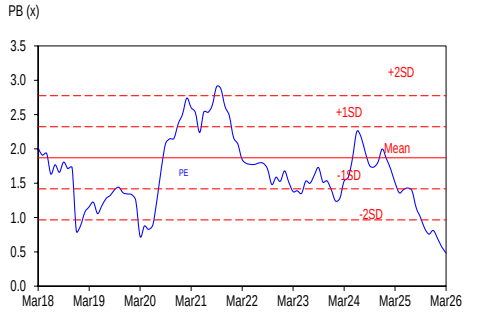
Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: UOB Kay Hian

Seven-Year Forward PBV Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,787.8	3,634.8	4,119.7	4,627.0
EBITDA	222.6	190.5	337.9	367.3
Deprec. & amort.	127.0	129.7	129.8	133.4
EBIT	95.6	60.8	208.1	233.9
Associate contributions	(1.1)	2.5	2.5	2.5
Net interest income/(expense)	(19.5)	(23.5)	(23.5)	(23.5)
Pre-tax profit	75.0	39.8	187.1	212.8
Tax	(42.0)	(9.9)	(49.1)	(56.0)
Minorities	3.7	0.4	2.1	2.4
Net profit	36.7	30.3	140.1	159.2
Net profit (adj.)	51.3	30.3	140.1	159.2

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	912.5	932.8	953.0	969.6
Other LT assets	293.0	295.5	298.0	300.4
Cash/ST investment	858.7	788.1	736.6	704.6
Other current assets	1,661.3	1,758.1	1,950.2	2,169.1
Total assets	3,725.5	3,774.5	3,937.8	4,143.8
ST debt	454.3	454.3	454.3	454.3
Other current liabilities	701.9	730.0	797.0	893.5
LT debt	332.9	332.9	332.9	332.9
Other LT liabilities	85.0	85.0	85.0	85.0
Shareholders' equity	2,153.1	2,174.4	2,272.8	2,384.6
Minority interest	(1.7)	(2.1)	(4.2)	(6.6)
Total liabilities & equity	3,725.5	3,774.5	3,937.8	4,143.8

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	191.7	243.6	268.8
Pre-tax profit	75.0	39.8	187.1	212.8
Tax	(42.0)	(9.9)	(49.1)	(56.0)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working capital changes	336.9	11.0	(45.4)	(42.7)
Other operating cashflows	17.2	8.0	8.1	8.2
Investing	(139.1)	(200.0)	(200.0)	(200.0)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.8	(81.4)	(81.4)	(81.4)
Financing	(257.2)	(62.3)	(95.0)	(100.8)
Dividend payments	(77.3)	(9.0)	(41.7)	(47.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	(34.6)	(15.4)	(14.7)
Others/interest paid	(19.6)	(18.7)	(37.9)	(38.7)
Net cash inflow (outflow)	134.5	(70.6)	(51.4)	(32.0)
Beginning cash & cash equivalent	755.0	858.7	788.1	736.6
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.6	788.1	736.7	704.6

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	5.2	8.2	7.9
Pre-tax margin	2.0	1.1	4.5	4.6
Net margin	1.0	0.8	3.4	3.4
ROA	0.9	0.8	3.6	3.9
ROE	1.7	1.4	6.3	6.8
Growth				
Turnover	(10.8)	(4.0)	13.3	12.3
EBITDA	(46.1)	(14.4)	77.4	8.7
Pre-tax profit	(75.8)	(46.9)	370.1	13.7
Net profit	(85.1)	(17.4)	362.4	13.6
Net profit (adj.)	(75.5)	(40.9)	362.4	13.6
EPS	(75.5)	(38.5)	350.0	11.1
Leverage				
Debt to total capital	26.8	26.6	25.8	24.9
Debt to equity	36.6	36.2	34.6	33.0
Net debt/(cash) to equity	(3.3)	(0.0)	2.2	3.5
Interest cover	11.4	8.1	14.4	15.6

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